



BEEF CATTLE COLLATERAL INSPECTION REPORT

Client Information									
Relationship Name:	McClain Farms, Inc.								
Obligation Number:	2952	Address:	824 Mullins Lane						
WW-ID:	604357	City State:	Benton, KY						
Sector:	Beef Cattle Ranching	Main Contact:	Brian McClain						
Fiscal Year End:	December	Email:	mccclainfarms@gmail.com						
Bank Information & Inspection Information									
Rabobank LQC:	Good	Report Date:	3/10/23						
R - Rating:	R16	Inspection Date(s):	2/28/23						
RAF Region/Territory:	Northeast	Cutoff Date:	1/31/23						
RAF Office:	Evansville, IL	Prior Inspection Date(s):	4/7/22 and 4/27/22						
MD/BDM-FAM:	Dan Villwock; Jeff Abbey	Lead Inspector:	Michelle Stockett						
RM1 & RM2:	Chip Lawson	Inspection Team:	Sean Johnstone						
FA:	Jason Dunn	Next Internal Review:							
RCO:	Carla Schindler	Next Maturity or Annual Review Date:	8/1/2023						
GM:	JP van Oosten	Frequency:	Annually						
Recommendations		Significant Risks/Concerns							
Recommendations Made	Rating	Quantity							
Informational/Green	1	1							
Technical/Amber	2	0							
Material/Red	3	3							
Total:		4							
Sign off of AFCID Team Lead or Head of AFCID and Viewpoint									
Sign Off:	Date:	3/11/2023	Viewpoint/Opinion						
			High information risk with adjusted negative BB base margin.						
Facility Information									
RLOC(s):	Facility No.	Maturity Date	Accrued Interest						
Description/Type			on Principal (excludes default interest)						
Facility 1 RLOC	1	8/1/2023	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 30%;">Principal Balance</th> <th style="width: 30%;">Total Commitment</th> <th style="width: 30%;">Default Interest</th> </tr> <tr> <td>\$ 54,573,418</td> <td>\$ 54,000,000</td> <td>\$ 929,173</td> </tr> </table>	Principal Balance	Total Commitment	Default Interest	\$ 54,573,418	\$ 54,000,000	\$ 929,173
Principal Balance	Total Commitment	Default Interest							
\$ 54,573,418	\$ 54,000,000	\$ 929,173							
Type		Frequency							
Non-Restrictive Borrowing Base (Single Only)		Monthly							
Borrowing Base Structure:									
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**McClain Farms, Inc.****EXECUTIVE SUMMARY**

The Agricultural Field and Collateral Inspection Department (AFCID) was engaged to perform a standard inspection of the collateral to secure the existing loan to McClain Farms, Inc. ("McClain" the "Company" or the "Borrower"). The collateral inspection was completed by a team of inspectors on February 28, 2023, at the Company's headquarters located in Hereford, TX. The primary Company contact was owner Brian McClain. The Inspector spoke with RCO Schindler for account clarity before the inspection. Conversations were also held prior with Sr Chip Lawson as well as in person since Lawson attended the inspection in Texas. A closeout review was held with the Client before leaving the operation to discuss the observations made during the inspection. Regarding the discrepancy with the headcount, Client indicated he had cattle in KY and cattle were on the road to TX. He also mentioned that since feeder cattle prices have become so high recently, his overall numbers would be impacted and would be lower than January numbers on 2/28/23.

While onsite at the 3 locations in Texas, Inspection team including Sr. RM counted 8,916 cattle on hand at the individual yards. Below is the insert showing the discrepancy with numbers from January 31, 2023, to February 28, 2023, as client was not able to provide yardsheets that inspector was able to tieback to January counts:

	<u>2/28/23 counts</u>	<u>1/31/23 BBC</u>
McClain Fdyd - Hereford	2,480	31,668
7M - Friona	4,217	27,043
Tommy's - Friona	2,219	0
McClain Farms - KY (per Brian)	20,000	21,631
	<u>28,916</u>	<u>80,342</u>
Change in Head Count		51,426

The Company is required to prepare a monthly, non-restrictive Borrowing Base Certificates (BBC) for presentation to Rabo AgriFinance (Lender) within 30 days of month end.

The scope included a review of the 1/31/2022 Borrowing Base Certificate (BBC), the current herd and feed inventories, as well as an inspection of the physical operations. Also discussed with the company were the accounts receivables, accounts payable, cash accounts, feed inventory and outstanding check transactions. The Client works with Carr, Riggs and Ingram, LLC CPA in Albuquerque, NM to prepare year ending, reviewed financial statements.

	<u>Borrower Reported</u>	<u>Credit Agreement</u>	<u>Inspection</u>
Gross Eligible Collateral	\$ 113,537,704	\$ 18,854,136	\$ 18,854,136
Net/Margined Eligible Collateral	\$ 85,058,408	\$ 13,692,823	\$ 13,692,823
RLOC Outstanding	\$ 55,502,591	\$ 55,502,591	\$ 55,502,591
Gross Collateral Margin	\$ 58,035,113	\$ (36,648,455)	\$ (36,648,455)
Net/Margined Collateral Margin	\$ 29,555,817	\$ (41,809,768)	\$ (41,809,768)
Loan/Gross Eligible Collateral %	49%	294%	294%
Loan/Net Eligible Collateral %	65%	405%	405%

Borrower Reported: Indicates reporting as provided by the Company to the Lender.

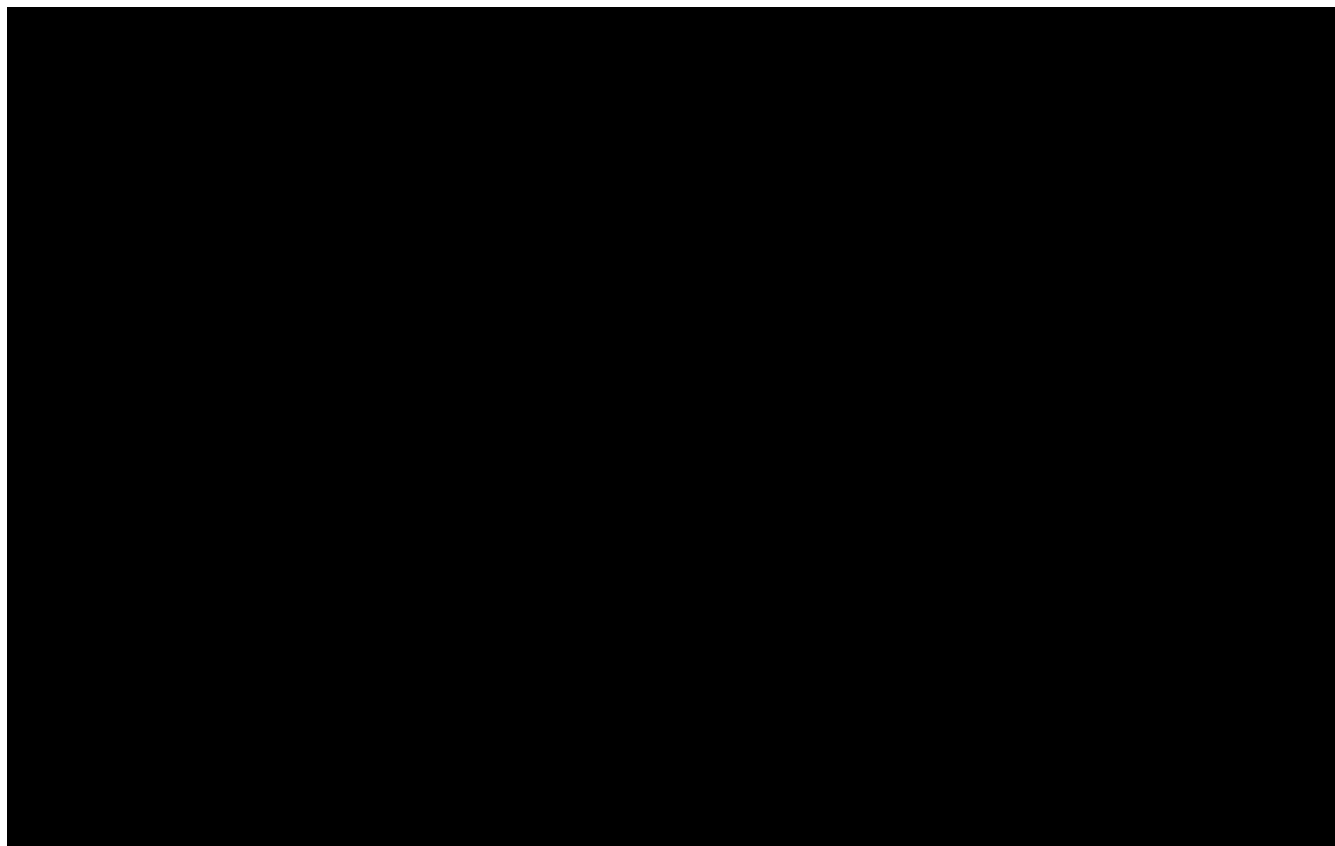


Credit Agreement: Adjustments made to Company prepared reporting per requirements of the Credit Agreement. This column highlights the client's compliance with documented terms and conditions.

Inspection: Adjustments made to follow standard inspection scopes and industry practice, or where specific risks have been identified. Some adjustments may differ from credit approved terms and/or legally documented terms and are provided for informational purposes only.

Adjustments made during the inspection are as follows:

Borrowing Base Category	Bank Documentation \$ Adjustments	Inspection \$ Adjustments
Cattle Count Adjustment	\$ (93,271,928)	\$ (93,271,928)
Outstanding Checks	\$ (1,161,639)	\$ (1,161,639)
Accounts Payable Adjustment	\$ (250,000)	\$ (250,000)
Totals	\$ (94,683,567)	\$ (94,683,567)



I hereby certify that I have personally examined the supporting documentation for the submitted borrowing base. I further certify that I am not related to the Borrower, have no interest in the loan(s) applied for or outstanding, and the foregoing summary and hereinafter is a true report of my findings.

Date Inspection Completed February 28, 2023

Michelle Stockett

Michelle Stockett

Sr. AFCID Collateral Inspector



OPERATION OVERVIEW

McClain Farms, Inc. is in Benton, KY and is managed by Brian McClain. The Company exists to act as a backgrounding operation for the Companies cattle prior to shipping them to McClain Feed Yard or 7M Feeders, both of which are related entities. McClain Farms receives lightweight cattle out of Florida and the Southeastern US, backgrounds them and brings them up on feed ensuring healthy cattle that are ready to gain once they arrive at the grow yards in TX. MF takes their role within the entities seriously and are responsible for straightening out large numbers of cattle prior to shipping to TX. Cattle are received in KY at a set of pens reminiscent of a grow yard where they are introduced to feed, bunks, and waterers. This allows a more accessible area to provide increased care for the lightweight, higher risk animals in their first few days. From there, they are turned into small grass traps for a time, before finally being turned out into larger grass pastures to gain weight through forage and supplemental feeding prior to their shipping. Health protocols are progressive and preventative care is preferred to reactive care at all the entities. McClain Feed Yard is in Hereford, TX and 7M Cattle Feeders is in Friona, TX (approximately 25 miles apart); both are managed/owned by Brian McClain, who lives in Benton, KY.

[REDACTED]

[REDACTED]

[REDACTED]

Both McClain Feed Yard and 7M were in good condition at the time of the inspection; they are older yards but have seen upgrades to pen construction and layout and are well suited to their current purpose. Management continues to utilize only the north half of the 7M yard for current. While Inspection team was onsite at Friona, they did see cattle trucks arriving and unloading cattle. Client maintains that 15 trucks arrived on the last day of the month of February which would equate to around approximately 1,000 cattle depending on the weight of the cattle. Client had also shipped cattle the morning of the location out of the "Tommy" yard and Client did not have numbers for the shipments to provide to Inspection Team.

FACILITY OVERVIEW

A review of bank documentation noted no concerns or discrepancies. Approved structures match the advance rates as shown in the approved Facility Sheet. Maximum Amount. The aggregate unpaid principal balance of the Loans must not exceed the lesser of: (i) \$54,000,000.00 or (ii) the Borrowing Base or (iii) that amount specified below:

- (a) From the Closing Date through 3/31/2023: \$54,000,000
- (b) From 4/1/2023 through Maturity date: \$48,000,000

Operating Line of Credit 3 Borrowing Base means the sum of:

- I. 80% of Eligible Accounts receivable; plus
- II. 75% of the Eligible Cattle Value of Eligible Cattle; plus
- III. 80% of the Value of Eligible Cattle Down Payments; plus
- IV. 100% of Eligible Commodity Hedge Accounts; plus
- V. 100% of the Eligible Demand Deposit Accounts; plus
- VI. 75% of the Value of Eligible Feed and Grain Inventory; plus
- VII. 85% of the Eligible Cattle Value of Eligible Hedged Cattle; plus
- VIII. 100% of Eligible Investment in Growing Crops; plus
- IX. 100% of Eligible Packer Accounts Receivables; plus
- X. 75% of Eligible Cattle Value of Eligible Pasture Cattle; plus
- XI. 80% of the Eligible Cattle Value of Eligible Option Protected Cattle; plus
- XII. 80% of Eligible Prepaid Feed and Input Expenses; plus
- XIII. 100% of the Eligible Cattle Value of Eligible Procurement Cattle; minus
- XIV. 100% Related Payables and Liabilities; minus
- XV. 100% Book Overdraft/Outstanding Pending Transactions
- XVI. 100% of Cattle Deposits Received

FINDINGS**Commodity Hedge Accounts**

As of 1/31/23, Client reported no hedge account activity. Due to a change last year to the Credit Agreement, Client now puts all cattle at the 75% advance rate and no longer shows contracts for outside buyers. Inspection Team did not request to see the contracts or PO's though Client did maintain he still has some.

Ineligible/Adjustments				
Adjustments:	Head	Company Prepared	Bank Terms	Inspection
Cattle count adjusted to 2/28/23	(71,426)	\$ (93,271,928)	\$ (93,271,928)	\$ (93,271,928)
Total Adjustments		(93,271,928)	\$ (93,271,928)	\$ (93,271,928)
Net Eligible Inventory		\$ 9,254,808	\$ 9,254,808	\$ 9,254,808

billed to	wire date	hd cnt	difference		check amount	check date	check number	name written to
			wire amount	wire				
Bo Robinson	2/1/2023	1,506	\$ 1,449,531.62	\$ 38,044.90	\$ 1,487,576.52	2/1/2023	4700	2B Farms
Bo Robinson	2/2/2023	1,511	\$ 1,465,713.30	\$ 36,394.52	\$ 1,492,107.82	2/2/2023	4701	2B Farms
Bo Robinson	2/3/2023	1,773	\$ 1,711,129.61	\$ 50,885.81	\$ 1,762,015.42	2/3/2023	4702	2B Farms
Bo Robinson	2/7/2023	2,671	\$ 2,567,485.55	\$ 70,640.86	\$ 2,638,126.41	2/7/2023	4812	2B Farms written out of McClain Feedyard account
Bo Robinson	2/8/2023	2,587	\$ 2,483,397.26	\$ 65,228.97	\$ 2,548,626.23	2/8/2023	4813	2B Farms written out of McClain Feedyard account
Bo Robinson	2/9/2023	2,550	\$ 2,460,389.42	\$ 64,196.17	\$ 2,530,585.59	2/9/2023	4657	2B Farms
Bo Robinson	2/10/2023	2,565	\$ 2,478,055.65	\$ 66,962.26	\$ 2,543,047.91	2/10/2023	4658	2B Farms
Bo Robinson	2/13/2023	2,568	\$ 2,488,153.48	\$ 66,230.07	\$ 2,554,383.55	2/13/2023	4659	2B Farms
Bo Robinson	2/14/2023	2,551	\$ 2,476,408.84	\$ 64,410.88	\$ 2,540,819.72	2/14/2023	4660	2B Farms
Bo Robinson	2/15/2023	2,391	\$ 2,470,946.70	\$ 64,985.94	\$ 2,535,932.64	2/15/2023	4661	2B Farms
Bo Robinson	2/16/2023	1,524	\$ 1,469,317.32	\$ 37,177.51	\$ 1,506,494.83	2/16/2023	4662	2B Farms
Bo Robinson	2/17/2023	3,888	\$ 3,780,119.53	\$ 97,037.49	\$ 3,857,157.02	2/17/2023	#4663	2B Farms
Bo Robinson	2/21/2023	2,589	\$ 2,468,739.31	\$ 67,370.31	\$ 2,566,109.62	2/21/2023	#4664	2B Farms
Bo Robinson	2/22/2023	2,544	\$ 2,462,946.82	\$ 63,672.75	\$ 2,526,619.57	2/22/2023	#4665	2B Farms
Bo Robinson	2/23/2023	2,564	\$ 2,465,962.96	\$ 65,102.98	\$ 2,561,065.97	2/23/2023	#4666	2B Farms
Bo Robinson	2/24/2023	2,530	\$ 2,472,632.73	\$ 63,494.81	\$ 2,536,427.54	2/24/2023	#4667	2B Farms
Bo Robinson	2/27/2023	2,535	\$ 2,460,851.63	\$ 65,953.78	\$ 2,556,805.41	2/27/2023	#4668	2B Farms
		hd sold	wired in	difference	check written out	checks written out		
		40,827	\$ 39,696,081.76	\$ 1,047,820.01	35,557,149.13	5,188,752.64		
wires from Bo into McClain Fdyd					checks to 2B from McClain Farms	checks to 2B from McClain Fdyd		

**Feed and Grain Inventory**

<i>Inventory Description</i>	<i>Unit</i>	<i>Quantity</i>	<i>\$/Unit</i>	<i>\$ Value</i>
Grains	ton	1,149	\$ 172.97	\$198,746
Hay	ton	279	\$ 155.00	\$43,245
Ingredients	ton	242	\$ 246.88	\$59,745
Silage	ton	19,661	\$ 66.46	\$1,306,663
Medicine	per unit	-	\$ -	\$0.00
Total Inventory				\$1,608,399

Feed inventory as submitted totaled \$1,608,399 and is made up of old and new silages stored in pits (bags in KY) along with ground alfalfa, wet distillers' grain, ground/flaked corn, and a supplement.

Commodities are purchased and paid for by invoice, via ACH. Inspector saw this within the bank statements. Inspection Team did run scenarios related to the feed on hand and calculated that with only the feed submitted on the BBC, Client does not have enough silage to feed cattle in the numbers he submitted for more than 90 days, probably no more than 45-60, if the cattle numbers are actual.

Accounts Receivable (A/R)

As of the 1/31/23 cutoff date, the Client submitted \$12,227,560 accounts receivable primarily for cattle sales. Client also included \$600,650 as "payment for feedbills". Inspector presents the transactions in the following insert:

<i>Accounts Receivable</i>	<i>\$ Amount</i>	<i>%</i>
Packer A/R	0	0%
Feed A/R	0	0%
Misc A/R	\$ 12,227,560	100%
Total	\$ 12,227,560	100%

Below is an insert of who the customers were for A/R due at the end of January:

RILEY LIVESTOCK	\$	267,688.85	cattle
JIMMY GREER	\$	355,904.57	cattle
MYKEL TIDWELL	\$	1,002,475.16	cattle
MEAGAN GOAD	\$	17,876.43	cattle
TGF RANCH	\$	303,220.38	cattle
RICK RODGERS	\$	11,291.96	cattle
JOHN TIDWELL	\$	345,650.99	cattle
PRIEST VICTORY	\$	244,550.78	cattle & feed
ERIC DEJARNATT	\$	65,431.93	cattle
SCOTT LIVESTOCK	\$	707,671.16	cattle
DON JONES	\$	1,558,524.52	cattle & feed
MAP ENTERPRISES	\$	2,426,795.71	cattle
WILDForest CATTLE	\$	4,920,477.33	cattle
	\$	12,227,559.77	Total A/R

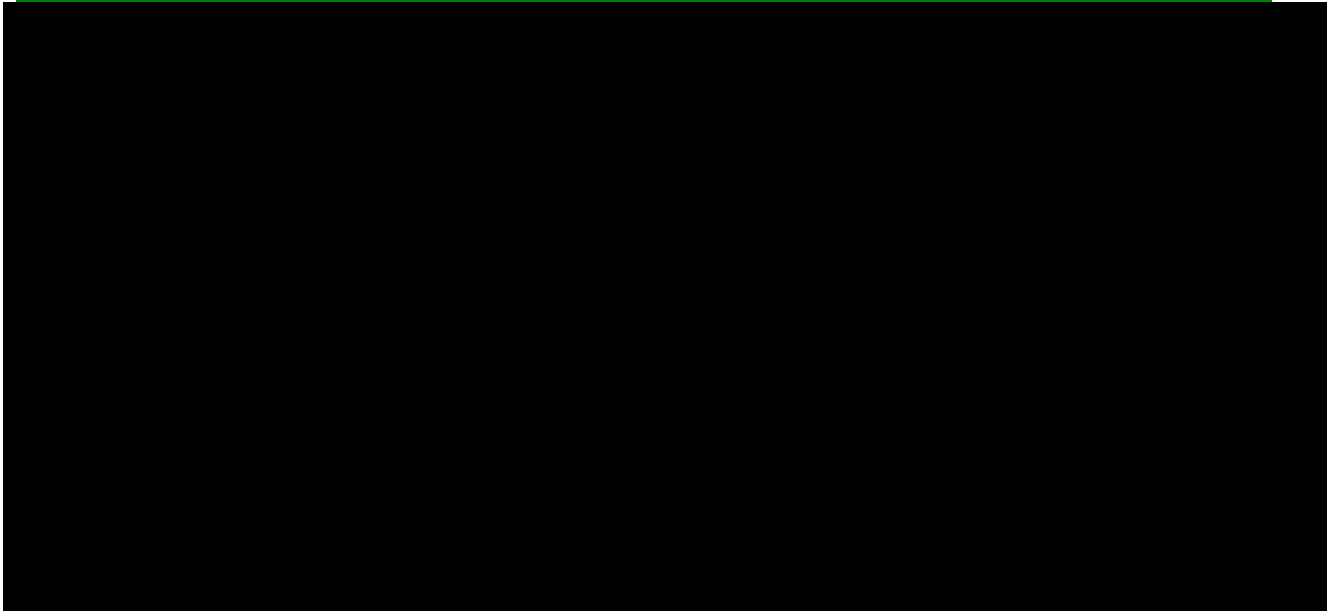
Packer Accounts Receivable

No Packer A/R reported as of 1/31/2023. Inspector could see a couple of wire's received from Keeling Cattle Feeders which would have been for fat cattle sales. Client does not show any headcount at Keeling Cattle Feeders nor has any feedbill due been shown ever on the submitted BBC. Inspector was aware when Client was doing business growing

RECOMMENDATION RESPONSE

Recommendations are defined in this report as either: (Green-Level 1) for information only and no specific action needs to take place, (Amber Level 2) CRT will need to present to Credit the resolution of the recommendation by next scheduled internal review (LSR, semi-annual review or annual review), or (Red Level 3) CRT will need to present to Credit the resolution of the recommendation within 45 days of the inspection report being issued. Recommendations will be entered into N-Cino, with a monthly report of outstanding recommendations sent to Credit by Head of AFCID.

RECOMMENDATIONS



APPENDIX

Attachment 1 – Borrowing Base Summary



McClain Farms, Inc.				Attachment 1			
1/31/2023							
BORROWING BASE SUMMARY							
1/31/2023							
		Gross Collateral				Loanable Collateral	
Description	Borrower Reported	Credit Agmt.	Inspection		Borrower Reported	Credit Agmt.	Inspection
Eligible Cattle - Hedged/ Contracted	\$0	\$0	\$0	85%	\$0	\$0	\$0
Eligible Cattle - Unhedged	\$102,526,736	9,254,808.00	\$9,254,808	75%	\$76,895,052	\$6,941,106	\$6,941,106
Eligible Cattle - Option Protected	\$0	\$0	\$0	80%	\$0	\$0	\$0
Eligible Cattle - Pasture	\$0	\$0	\$0	75%	\$0	\$0	\$0
Eligible Cattle - Breeding Livestock	\$0	\$0	\$0	75%	\$0	\$0	\$0
Total Livestock	\$102,526,736	\$9,254,808	\$9,254,808		\$76,895,052	\$6,941,106	\$6,941,106
A/R (less than 30 days)	\$12,227,560	\$12,227,560	\$12,227,560	80%	\$9,782,048	\$9,782,048	\$9,782,048
Payments in Transit/ Packer Receivables	\$0	\$0	\$0	100%	\$0	\$0	\$0
Other Eligible Inventory	\$0	\$0	\$0	75%	\$0	\$0	\$0
Feed & Grain Inventory	\$1,608,399	\$1,608,399	\$1,608,399	75%	\$1,206,299	\$1,206,299	\$1,206,299
Customer Notes Receivable - Cattle and Feed	\$0	\$0	\$0	100%	\$0	\$0	\$0
Customer Notes Receivable - Feed Only	\$0	\$0	\$0	100%	\$0	\$0	\$0
Prepaid Feed & Input Expenses	\$0	\$0	\$0	75%	\$0	\$0	\$0
Investment in Growing Crops	\$0	\$0	\$0	70%	\$0	\$0	\$0
Commodity Account	\$0	\$0	\$0	100%	\$0	\$0	\$0
Bank Book Balance/Overdrafts	(\$2,824,991)	(\$3,986,630)	(\$3,986,630)	100%	(\$2,824,991)	(\$3,986,630)	(\$3,986,630)
Accounts Payable	\$0	(\$250,000)	(\$250,000)	100%	\$0	(\$250,000)	(\$250,000)
Eligible Assets	\$113,537,704	\$18,854,136	\$18,854,136		\$85,058,408	\$13,692,823	\$13,692,823
Loans Outstanding	\$55,502,591	\$55,502,591	\$55,502,591		\$55,502,591	\$55,502,591	\$55,502,591
Required Minimum Net Collateral	\$0	\$0	\$0		\$0	\$0	\$0
Net Collateral	\$58,035,113	(\$36,648,455)	(\$36,648,455)		\$29,555,817	(\$41,809,768)	(\$41,809,768)